

British Banking: Competition, Innovation and Regulation*

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I must begin with two personal observations. First, it is a great pleasure and the realisation of a life-long ambition to visit Japan. I am very grateful for the opportunity to see something of your beautiful country, to share in the centenary celebrations of Momoyama Gakuin and to be invited to meet you here today.

The second is so that you can appreciate my personal position. It is over four years since I retired from the Bank of England and, while I have no reason to think that my former colleagues would disagree with what I shall tell you, the words and ideas are mine and not by any means those of officialdom. So we turn our thoughts to British Banking: Competition, Innovation and Regulation.

The story that I want to share with you today begins as long ago as 1955 and ends by looking forward to 1995 and beyond. The aim is to see these forty years in perspective as a period of distinct evolution of competition, innovation and regulation in the British banking system.

For the individual, or the company, the British banking system in

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1955 was not very different from what it had been fifty years earlier in respect of the range of facilities offered and the way in which they were provided. As we look at the system today we see that it has been subject to considerable change; and over the next ten years, chiefly because of technological innovation, it should be even more different.

To the observer of the U. K. scene, it is apparent that the dynamic of change has been supplied by a combination of financial innovation and development of competition, to which the regulatory system has had to adapt. The timing of the consequential regulatory changes has, as always, been affected by a combination of factors—not least, the general economic climate and the political inclination of the Government of the day.

Thirty years ago the British banking system was dominated by a few major banking companies. The London clearing bankers were responsible for over 85% of the commercial banking business in sterling. Their lending and borrowing rates were fixed by collective agreement and in conventional relationship to Bank Rate. Lending was predominantly by overdraft and customers' deposits were either on interest-free current account or on interest-bearing deposit account at seven days' notice. Such competition as there was between the banks was only at the very fringe of their operations.

But in the mid-1950s competition from outside the system was beginning to appear. First, the instalment credit finance houses engaged in the rapidly growing market for consumer credit ("hire-purchase") began to bid competitively for deposits. Next, local (*i.e.* municipal) authorities, in response to political moves to achieve more efficient financing of the public sector, began to borrow from market sources instead of from the central government. Finally, the removal of direct credit controls and the

withdrawal of lending guidelines which the Bank of England had used to bring informal pressure on the size and nature of lending by the clearing banks, encouraged the merchant banks and the growing number of foreign banks operating in London to expand their domestic sterling business in direct competition with the clearing banks.

The clearing banks responded to this situation in three ways—by setting up new deposit-taking subsidiaries outside their own cartel; by acquiring share-holdings in the hire purchase finance houses; and by themselves offering personal instalment credit facilities.

For their part, the monetary authorities responded defensively to this early phase of competitive innovation by reimposing direct credit controls and, later, extending their scope to cover deposit-taking finance houses and the non-clearing banks. And the concern of the authorities at the absence of any supervisory regime, formal or informal, for the finance houses—or “secondary banks” as they were later to be called—led, in 1963, to legislation in the form of the Protection of Depositors Act.

For six years, between 1965 and 1971, the pace of innovation was strictly limited by an elaborate regime of officially imposed lending ceilings. But those controls did not preclude the introduction of the first British credit card, or importantly, a very substantial growth of wholesale foreign currency business in the euromarkets.

By the end of the 1960s the climate of opinion, particularly political opinion, had become much more favourable towards the encouragement of free competition in banking; and much more hostile to cartels and restrictive lending ceilings. Despite some initial show of reluctance by the authorities, there was a headlong dash for freedom and direct credit controls were abolished in the summer of 1971. At the same time, the

clearing banks' interest-rate cartel was dismantled and—and this is important when we come to look at what happened within the banking system in 1973/74—there continued to be a complete absence of effective supervision and control over secondary banks.

For the most part the 1970s was a decade of outright competition, interrupted only briefly by some short periods of direct control. The banking system enthusiastically developed the innovations that had been introduced in the previous two decades. For personal customers, credit cards, cheque cards, automatic cash dispensers, direct debit arrangements and other facilities became more readily available. Yet the main banks offered little new by way of interest-bearing savings accounts, despite a persistent tendency towards historically high nominal interest rates. This, and the fact that since 1969 the banks had been closed on Saturdays, resulted in an increasing proportion of personal savings being attracted to the Building Societies who offered higher interest rates, remained open on Saturdays, offered easy withdrawal facilities and were engaged in meeting a strong upward demand for mortgages.

For the banks themselves, the main innovation of the 1970s was the move into medium-term lending to their corporate customers. This evolved, mainly after 1974, as a response to the onset of high and volatile levels of inflation and the consequent unwillingness of industrial and commercial companies to borrow at fixed interest in the debenture and loan stock markets. The growth of industrial leasing by the banks—a tax efficient alternative to capital borrowing—was likewise stimulated.

All these developments to which I have referred had important implications for monetary control and banking supervision. Without opening up a whole new area of discussion of monetary policy (which would take a whole series of lectures and which others, better qualified

than I would need to undertake) it was evident in the U.K. during the 1970s that inconsistencies emerging in the hitherto accepted relationship between the interest rate and the broad money supply were leading to growing tensions between policy regarding the money supply itself and macro-economic policy more generally. These tensions were awkward enough in themselves but, coming as they did at a time when structural innovations and regulatory changes were affecting the behaviour of the banking system in new ways, they reduced the authorities' ability to predict the course of events and, importantly, their ability to interpret the monetary aggregates and set appropriate monetary targets. Those of us who lived close to these matters through the 1970s remember only too well the seemingly endless debates on M_1 , M_3 , M_5 *etc.* which characterised those years. Suffice it to say that, born of the inflationary disturbances of the 1970s, there was a generally accepted view that strict, publicly announced rules for control of the money supply were essential to the conquering of inflation.

This is an appropriate moment to look at banking supervision. I have already described how the banking system at the start of our story was dominated by a handful of major banks. There was no need for a complicated system of external supervisory regulation. Self-regulation by the banks, supported by the long-standing authority of the Bank of England, was sufficient to maintain adequate standards of liquidity and capital, and to preserve the quality of banking business. There was, in short, a minimum of supervision and interference; and where controls were needed, they tended to support this state of affairs. For example, ceiling controls on lending restricted the growth of the banks' balance sheets and the rationing of credit tended to give priority to the higher-quality borrowers. But with the deregulation of the industry, already

described, prudential standards outside the primary banking sector were undermined by competitive pressures and by demands for credit from borrowers, particularly in the field of commercial property, who lacked ready access to finance from established sources. As a result, in the early 1970s new lending institutions grew up in the secondary sector, and for a time flourished, virtually free from restrictions and constraints. Some of these secondary institutions came to disregard established prudential standards in the conduct of their business—and the inevitable happened. In the winter of 1973–74, with the termination of the boom in commercial property, their prosperity vanished, deposits were withdrawn, and a crisis ensued.

This secondary banking crisis demonstrated the lack of legislation to govern the activity of deposit-taking and the absence of a supervisory authority. Depositors were not alive to the differences in risk between the various deposit-seeking companies; and established credit assessment techniques did not satisfactorily measure the risk of lending to these so-called secondary banks. In short, the pace of competition and innovation had not been matched by the development of an appropriate supervisory framework.

The crisis of 1973/74 pointed clearly to what was needed; while at the same time the requirements of the European Community were calling for formal licensing of deposit-taking companies. The result was the Banking Act of 1979, the central provision of which is a general prohibition on the acceptance of deposits without specific authorisation of the deposit-taker by the Bank of England. While the Act sets out broad criteria relating to management and conduct of business, it leaves a wide measure of discretion to the Bank in the interpretation and application of the criteria to individual companies. In effect, the response

of the authorities to the changed circumstances was to turn their attention to the central supervisory issues of the measurement of liquidity, capital adequacy and quality of managements. And the lesson to be learned is that there is a continuing need to keep under review both the legislative basis and the form of supervision, to ensure that new techniques of banking are both properly conducted and adequately supervised.

It has been possible to describe to you the development of the British banking system up to 1980 with only a passing reference to building societies. But, as will become evident, as we go forward in time, developments in banking become inextricably linked with those in the building society movement. Perhaps I should remind you that these are mutual non-profit making societies designed essentially to provide finance for owner-occupied housing. In the period 1955 to 1980 the societies experienced extraordinary growth. Rent controls virtually eliminated the market in private sector rented accommodation and the favourable tax treatment of owner-occupied housing ensured a huge demand for funds to finance owner occupation. Moreover the banks had not yet become active competitors in the mortgage market.

Building societies can operate on a considerably finer margin between borrowing and lending rates than their competitors. This is due to a combination of low management expenses due to a relatively simple operation, mutual status with no requirement to pay out a dividend and a low reserve requirement reflecting relatively low-risk assets. Throughout the 1960s and 1970s building societies proved remarkably safe and were subject to a minimum of statutory supervision. But since 1980 the position has begun to change. Not only have the major banks entered the housing mortgage market as lenders on a large scale in competition with the building societies, but the societies have also had to meet

increased competition on the borrowing side, with central government seeking actively to borrow from the personal sector, through savings bonds and similar investments, in order to reduce the weight of borrowing in the gilt-edged market.

This competition has provoked a vigorous response from the societies and has released an interest in innovation, which had been gradually building up through the 1970s. The societies were clearly not content to maintain their low-key stance and see an increasing share of their traditional business being taken by the banks. Their initial response was to set about attracting additional funds by improving the terms offered to investors, notably by special interest rate additions and by reducing the period of notice required for withdrawals of money.

In parallel with what we have already observed in the banking industry, the competitive innovation within the building society movement has been accompanied by a change in the character of supervision; and like the banks, the societies have had to respond to regulations of the European Community, which require positive authorisation by a regulatory body. Thus, the supervisory regime for building societies is being brought even closer to that for banks and other licensed deposit-takers, although given the nature of building society business it is likely still to be simpler. Once again, we observe that changes in regulatory systems are an inevitable consequence of competitive innovation.

The pace of change is certainly not slackening and as we look at the immediate future it is evident that we face a period of further structural adjustment to prevailing forces. Increasing competition within the banking industry and from the building societies outside will bring continued, and perhaps renewed, pressure on margins. This pressure and the competitive need to offer private and corporate customers an ever

wider range of banking and money transmission facilities are important factors in the challenge of the future. So in our assessment of the industry as a whole we need to turn to technology.

No one can doubt that a technological revolution lies ahead, although opinions may differ about its pace and timing. The application of electronic data processing to clerical operations internal to the banks in Britain has been going ahead for twenty years or more. Important developments have brought relief to many labour-intensive operations and have gradually served to restrain the growth of paper in the money transmission system. But apart from the establishment of national, and now international, credit card systems, the operation of money payment arrangements as seen by the bank customer appear largely unaltered. Cheques continue to be used in the same way for the same purposes, as do notes and coin. And yet the man in the street has seen, in recent years, the first product of the new technology to be put to widespread use. This is the "cash dispenser", which is now a familiar sight in our towns and cities. In addition to their principal cash dispensing function, the latest models of these machines can be used to obtain cash advances via credit cards and to transfer balances between deposit and current accounts. Building societies are also beginning to install dispensers and are actively investigating the possibility of a shared dispenser network. Meanwhile the clearing banks have begun placing their dispensers in petrol stations, supermarkets and in other locations away from their branches. Cash is likely to remain the most efficient means of payment for a great many minor transactions and convenient access to cash at all times, not just in banking hours, is provided by these machines.

Electronic funds transfer (EFT) will undoubtedly be the next major development affecting our way of life although, in practical terms, it has

yet to go beyond the experimental stage in Britain. In essence, the system once developed will enable a customer to give instructions at the point of sale for his account with a bank (or possibly a building society) to be debited with the cost of his purchase and for the funds to be transferred to the account of the seller. From this beginning it would be a logical step to extend the system to include a home banking service and a home shopping facility. Obviously a full national EFT network would require very considerable capital expenditure, but the calculations that have already been done indicate that, compared with the present paper-based labour-intensive systems, EFT would be no more costly to the customer. While an EFT revolution cannot happen overnight, it seems clear that a combination of technological availability with the competitive pressures I have already outlined will ensure that a great deal of progress will occur within, say, the next decade. So, looking ahead what kind of pattern can we envisage?

There will undoubtedly be much more widespread payment of salaries and wages direct to individual accounts at deposit-taking institutions. Cash will mostly be provided from dispensers and will still remain the cheapest and most convenient means of payment for a host of minor transactions. Many payments will be made by the use of plastic cards at point of sale or by use of terminals, in the home. Credit cards will continue to be used by those wishing to buy goods on extended credit terms. EFT terminals in company offices will be used to make large scale payments. Given this pattern, the need for branches of banks and building societies will be reduced but not eliminated. Branches will still be needed to handle what remains of the cheque system and as places where formalities of opening accounts are conducted, loans arranged and a variety of other non-mechanical services provided.

One other development that one can envisage is that the present tendency for banks and building societies to grow larger by mergers will continue. What is less clear is whether, in the face of increasing competition, banks and societies will decide to join forces—not necessarily by merging but perhaps by collaborating in the provision of common services. A judgement about the possible emergence of this kind of financial supermarket is not easy to make, but there are signs already that the hitherto clear distinctions between the various specialised institutions that together make up the British financial scene are becoming blurred and we are already envisaging the possibility that competition will result in deposit-taking institutions augmenting their services by the provision of legal, insurance, travel and other agency functions.

The response of the various supervisory authorities to the emergence of financial supermarkets in the U.K. must depend on the manner and pace of the development. It would not be sensible or helpful for supervisory authorities to attempt to set regulatory requirements in advance, but it is certain that important questions would have to be put, and answered satisfactorily, regarding the adequacy of capital, the level of liquidity, the capacity of management, the degree of interlocking ownership and other factors that might distort the natural functioning of related but dissimilar operations. All this suggests that those responsible for the supervision of the different sectors of the financial system may themselves have to initiate a greater degree of positive collaboration with each other, involving the development both of a suitable forum and of improved communications. And, finally, the pressure of innovation must surely place considerable strains upon the legislative structure of supervision, even where—as in the U.K.—this is of a very flexible nature.

In tracing the complex interaction between competition, innovation

and regulation during an epoch of great change, I have attempted to look at the implications of what has happened, both as lessons from the past and as portents for the future. But I fear I may only have underlined the message that you have already heard—that life is a complicated affair and there are seldom easy and well-signposted routes to success. I must leave unanswered the important question of how, in this area—as in all the fields of human endeavour—we can achieve the right blend of integration in thinking and a balanced understanding of interdisciplinary relationships. Perhaps, it is appropriate that I should finish my story on an educational theme which illustrates the dilemma.

Not long ago there was introduced into the British educational system a subject called “integrated studies”, which sought to combine in one course such separate disciplines as history, geography, economics and sociology. Advocates of this course maintained that only by combining the several disciplines could they be properly understood and their educational value fully exploited. Opponents maintained that the result would be a vague and unsatisfactory mixture which would only muddle the student, lead to careless thinking and obstruct the proper understanding of separate subjects whose interrelationship could be adequately taught and understood without any need for integration. The debate continues and, as I see it, it is likely that both are partly right.

著者紹介と解説

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British Banking : Competition, Innovation and Regulation (イギリス金融制度——競争、革新および規制——) は、桃山学院創立 100 周年・大学開学 25 周年記念講演会の講演原稿である。この講演は、記念式典に英国聖公会 CMS (教会宣教協会) 代表として来院したピーター・テラー氏を招き、1984年11月22日に本学聖アンデレ館で行われた。

テラー氏の経歴を簡単に記そう。氏は、1939—80年という長い期間英国イングランド銀行に勤務し、特に退職前の12年間(1968—80)は同行経営担当責任者 (Secretary and Chief of Administration) という重要な地位にあった。その功績が認められ、1980年6月、英国女王陛下より CBE (Commander of the Order of the British Empire) の称号を授与された。翌1981年 CMS の財務担当理事に任命され、現在に至っている。CMS は、英国聖公会の聖職者・信徒によって、アジア・アフリカ伝道を目的として1799年に設立された組織である。イングランド銀行在職中も、氏はこの協会の財務および法規委員会のメンバーであった。

この講演では、1955年以降のイギリス金融制度の歴史的変遷が金融機関の競争と革新、これに対するイングランド銀行の規制(対応)というからみあいを通じて跡付けられ、来たるべき10年における金融制度の変化が展望されている。テラー氏がイングランド銀行を退職して既に4年が経過していることもあり、分析は自由な立場からなされており、金融制度の将来についての予測もかなり大胆といえる。それがすべて氏の個人的見解であり、公式のものでないことは言うまでもないが、「かつての同僚もこの内容に異存はなかり」と講演の中でも述べられている。ともあれ、イングランド銀行の内部に精通した者ならではの興味深い指摘が随所に見られる。

この数年、わが国も激しい金融変革期にある状況にかんがみれば、講演テーマは時機を得たものであり、日本における金融制度の問題や将来を考えるヒントになるだろう。以下は講演の要旨である（小見出しは解説者が適当に付けた）。

イギリス金融制度——競争，革新および規制——

テーラー氏は、1955—95年の約40年をイギリス金融制度の激しい変化の時代としてとらえ、この間の金融制度の変化と将来について論じる。

1950年代半ば以降

イギリス銀行制度は、1950年代半ば頃までロンドン手形交換所の会員銀行（11行）によって支えられており、銀行間の競争は微々たるものであった。しかし、この頃から、(1)賦払購入金融会社の出現、(2)地方公共団体の民間市場からの資金調達、および(3)金融の自由化に伴う商業銀行や外国銀行の増加により、会員銀行は外からの競争に直面することになった。これに対して、会員銀行は、(1)預金受入れ子会社の設立、(2)賦払購入金融会社の株式保有、および(3)自ら個人に割賦信用供与という形で対応した。金融当局は、当初賦払購入金融会社に対する規制制度が存在しなかったため、会員銀行への直接信用規制という形で防衛的に対応したに過ぎなかった。しかし、1963年に預金者保護法が制定され、このような第2銀行（銀行類似機関）への規制が可能となった。

1960年代末以降

ところが、1960年代末以降金融の自由化が急速に進展し、1971年夏には直接信用規制は撤廃され、会員銀行の利子率カルテルも崩壊し、第2銀行への有効な監督と指導も全く存在しない状況となった。1970年代は総じて完全競争の時代であったといえる。クレジット・カード、小切手カード、現金自動支払機、自動払いなどがいっそう普及したが、銀行預金に関する新しい試みは殆どみられなかった。しかも1969年より土曜日が銀行の休業日となった。1970年代における銀行の主たる革新は、高いインフレ率の下では企業が確定

利付債券の発行を望まないで、1974年以降法人への中期貸付が導入されたことである。このような状況の中で、住宅金融組合が急速に成長した。住宅金融組合は、高い利子率の提供、土曜日営業および払い戻しの容易さという点で預金者を引きつけたが、その背景には抵当証書への需要増大という有利な状況があった。

第2銀行の分野では激しい競争と強い資金需要の下で、堅実経営の基準がくずれていった。1970年代初期には新しい貸付機関（とりわけ商業用不動産の分野）が登場し、一時期繁栄したが、1973—74年の冬にはその繁栄は終息し、危機が到来した。この第2銀行の危機は、競争と革新の歩みに監督上の枠組が対応していなかったことによる。1979年銀行法の制定はその対応であったが、同時に預金受入機関を認可制にすべきだという欧州共同体の要請に答えることにもなった。この法律の中心項目は、イングランド銀行が預金受入機関を認可する権限を持つという点であるが、条項の解釈・適用についてはイングランド銀行に裁量の余地を多く残すものであった。

ところで、住宅金融組合は1955—80年の間急速な成長をとげたのであるが、これには次の理由が考えられる。(1)家賃統制が存在し、民間業者の賃貸住宅建設は引きあわなかったこと、(2)持家保有に税制上の優遇措置がとられたこと、(3)会員銀行が競争者として登場しなかったこと、(4)住宅資金貸付を行う共済組合であるため、低い管理費、低い現金支払準備率ですんだこと、および(5)1960年代、70年代を通じて、法的規制は最小限のものであったことである。

1980年以降

ところが、1980年以降、(1)主要銀行の抵当市場への参入と(2)中央政府の個人部門からの資金調達とにより、競争が激化した。これに対して、住宅金融組合は好条件（追加的利子率、払戻条件の緩和など）を与え、追加的資金獲得に乗り出した。と同時に銀行同様の監督と規制を受けることになった。近い将来、銀行間での競争や住宅金融組合からの競争のため、銀行の利ざやが縮小するであろうから、銀行と住宅金融組合との間の構造的調整が必要とな

ろう。その際、銀行業務の領域拡大や貨幣の送金・支払サービスが重要な点となろう。

技術革命

これまで20年間の主要な変化は、(1)現金自動支払機の普及、および(2)電子データ処理（コンピューター）による労働集約的業務の軽減と振替決済による紙幣の節約であった。今後の主要な技術的發展は、電子口座振替制度（EFT）による在宅バンキング・サービスや在宅ショッピングであろう。この制度は、イギリスではまだ実験段階であるが、ほぼ10年内に急速に展開されるであろう。

金融機関の将来像

(1)給与振込の一般化、(2)小口取引には現金利用、(3)家庭でのプラスチック・カード利用、(4)クレジット・カード利用、および(5)大口取引は電子口座振替制度により企業のオフィスで処理、という姿を描くことができよう。そして、銀行や住宅金融組合の支店は、その必要性が減少し、(1)小切手処理、(2)口座開設手続、(3)ローンの手続、および(4)その他の機械化出来ない業務を行うところとなろう。

銀行と住宅金融組合との合併という傾向は続くであろうが、合併までは進まず共通サービスを協力して行うことになるかどうかは明白でない。金融スーパーマーケットの出現可能性について簡単に判断できないが、金融機関相互の区別が明瞭でなくなってきており、預金受入機関が競争に直面して、保険、旅行、投資などへと業務を拡大していくことになるだろう。監督機関は、この発展の仕方と歩みに対応していかなければならないが、あらかじめ規制条件を設定するというようなことは賢明でないであろう。しかし、自己資本比率、流動性の水準、経営者の質などいくつかの点については、問題点の把握と一定の判断を当局があらかじめ持つべきであろう。また、金融制度の中で所轄官庁の異なる部門に対しては、監督官庁が相互に協力してことにあたる必要があるだろう。ともあれ、革新の圧力が監督体制にかなりのひずみを与えることは否めない。